

# PERAC AUDIT REPORT



Lynn

Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2013





## TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	5
Statement of Changes in Fund Balances .....	6
Statement of Receipts.....	7
Statement of Disbursements.....	8
Investment Income.....	9
Schedule of Allocation of Investments Owned.....	10
Supplementary Investment Regulations.....	11
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions .....	12
Note 2 - Significant Accounting Policies.....	19
Note 3 - Supplementary Membership Regulations.....	21
Note 4 - Administration of the System .....	23
Note 5 - Actuarial Valuation and Assumptions.....	24
Note 6 - Membership Exhibit.....	25



# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. MCCARTHY

April 3, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Lynn Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan, Sam O'Brien, and Mike Pasternak who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





# EXPLANATION OF FINDING(S) AND RECOMMENDATION(S)

## **I. Bank Reconciliations:**

The Eastern Bank Retiree Payroll, Staff Salary, and Expense accounts have not been reconciled by the City Treasurer for all of 2014. In 2013, the Expense and Retiree Salary accounts were not reconciled for the month of December.

In recent years, the Treasurer's Office has had significant levels of staff reductions resulting in delays in completing bank reconciliations in a timely manner. The City of Lynn has recently contracted an outside CPA firm to complete all required bank reconciliations up through the month of June 2014.

**Recommendation:** An important cash management internal control is the timely completion of bank reconciliations. This control is especially critical in an atmosphere such as a retirement system which manages cash and financial transactions with a staff of only 1 or 2 individuals.

The City Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. The Treasurer must provide the retirement board with the completed bank reconciliations after they are prepared by the contracted CPA firm.

## **Board Response:**

The Lynn Retirement Board acknowledges that the retiree payroll, staff salary, and expense cash accounts have not been reconciled by the City Treasurer for all of 2014. The Board has continually inquired to the Treasurer's office concerning these reconciliations. The Treasurer has responded by stating that his office staff was shorthanded and new employees have been hired. He has also stated that the City of Lynn has agreed to obtain the services of the professional accounting firm of Melanson Heath and Company to specifically address this cash reconciliation problem. The Board feels confident that the Treasurer has addressed this issue and it will be resolved in the very near future.

## **2. Custody of Checks:**

The Retirement Board staff has complete custody of the three Eastern Bank accounts blank check stock. This is an internal control weakness since Board staff process cash/check disbursements, record the associated financial transactions in the general ledger, and mail out the checks.

**Recommendation:** The City of Lynn's Treasurer should take over custody of the Board's blank check stock and record the monthly distribution of blank checks to Board staff in a check log maintained by check sequence number. Any unused or voided check must be recorded in the log each month.

## **Board Response:**

The Lynn Retirement Board acknowledges that since our computer software has allowed us to prepare and print pension payroll and expense checks, we have kept the blank pension and expense checks in our office. The staff payroll is prepared and printed by a payroll vendor, namely Datamatix Inc. The Lynn Retirement Board office does not have or control any blank staff salary checks. The Board has asked the Treasurer to comply with your recommendation that his office take over custody of the Board's blank check stock and record the monthly distribution of blank checks to

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board staff in a check sequence number. The Treasurer has agreed and the Board will comply with the recommendation and give the Treasurer custody of our blank check stock.

### **3. Investment Management Fees:**

Monthly and quarterly investment management fees are collected by the investment managers directly out of investment funds. The Board does not review the fee deductions for accuracy against the detail stipulated in the investment contract. The auditor performed a review of the 2013 annual investment fees and noted that some investments fees did not appear in line with the contract fee percentages.

A recent audit performed by a CPA firm cited lack of Board approval for management fees.

**Recommendation:** The Board has a fiduciary responsibility to review management fees and compare them to the rates agreed to in their contract with the investment manager. A periodic review of the management fees is an essential component to fulfilling their fiduciary duties.

### **Board Response:**

The Lynn Retirement Board acknowledges that until recently there was no vote taken to approve payment of management fees for our pooled fund investments. These fees are paid directly out of investment funds, not by warrant or check, and are paid before the Board meeting. The Board is currently getting to view these quarterly fees and vote to approve payment. The Board agrees that it has a fiduciary responsibility to review these fees and compare them to the rates agreed to in the contract with the investment manager. The Board has contacted the managers and has requested a more detailed breakdown of the quarterly investment fees showing how the amounts of the fees were computed.

### **4. Refunds:**

An examination of refunds to members during the 2011-2013 audit years indicated that three of the refunds sampled returned an incorrect amount of interest to the member. In these cases, the 3% interest rule was being applied to members who had been involuntarily terminated from the system, therefore they were only due their regular interest. The total amount of 3% interest paid out to these three members totaled \$4842.99, when in fact they were due only \$458.27 in regular interest, due to the fact that they were involuntarily terminated from employment. This error amounted in \$4384.72 being overpaid to these three members.

This matter was brought to the attention of Lynn's Retirement Staff who stated that they thought because the termination was involuntary the 3% payment was correct and that this is in fact how they have processed all terminations.

**Recommendation:** Chapter 131 of the Acts of 2010 states that effective July 1, 2010, interest payable on the contribution refunds for those involuntarily withdrawing from service or for those with more than 10 years of creditable service will be set at regular interest. Please refer to PERAC



## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Memorandum #31, 2010 which references the 3% interest calculation and the following training document: <http://www.mass.gov/perac/training/refundstomembers.pdf>.

### **Board Response:**

The Lynn Retirement Board acknowledges that certain involuntary withdrawals were calculated using the 3% interest payment. The staff has been instructed to input involuntary withdrawals, whether termination or layoff, using the TX code which will prevent the 3% interest calculation.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2013	2012	2011
<b>Net Assets Available For Benefits:</b>			
Cash	\$1,599,944	\$1,387,069	\$333,675
Pooled Alternative Investment Funds	4,549,785	4,901,286	5,006,275
Pooled Real Estate Funds	14,128,661	15,005,467	14,152,822
PRIT Cash Fund	1,750,233	1,600,333	1,600,307
PRIT Core Fund	235,818,380	203,891,123	178,263,493
Accounts Receivable	1,843,942	749,487	728,112
Accounts Payable	(109,415)	(105,562)	0
<b>Total</b>	<u>\$259,581,530</u>	<u>\$227,429,202</u>	<u>\$200,084,684</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$79,960,977	\$77,616,370	\$75,314,761
Annuity Reserve Fund	27,383,071	27,851,178	27,074,171
Pension Fund	3,473,215	4,500,687	4,763,120
Military Service Fund	17,272	17,254	17,237
Expense Fund	0	0	0
Pension Reserve Fund	<u>148,746,995</u>	<u>117,443,713</u>	<u>92,915,395</u>
<b>Total</b>	<u>\$259,581,530</u>	<u>\$227,429,202</u>	<u>\$200,084,684</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$73,303,699	\$26,627,216	\$6,366,538	\$13,406	\$0	\$93,208,911	\$199,519,769
Receipts	6,413,447	803,385	25,533,972	34	1,522,626	(293,707)	33,979,758
Interfund Transfers	(3,757,160)	3,773,291	(20,119)	3,797	0	191	0
Disbursements	(645,225)	(4,129,721)	(27,117,271)	0	(1,522,626)	0	(33,414,843)
Ending Balance (2011)	75,314,761	27,074,171	4,763,120	17,237	0	92,915,395	200,084,684
Receipts	6,915,064	819,274	27,765,186	17	1,774,887	24,529,156	61,803,584
Interfund Transfers	(4,323,966)	4,329,941	(5,137)	0	0	(838)	0
Disbursements	(289,488)	(4,372,208)	(28,022,483)	0	(1,774,887)	0	(34,459,066)
Ending Balance (2012)	77,616,370	27,851,178	4,500,687	17,254	0	117,443,713	227,429,202
Receipts	7,236,317	832,833	28,285,576	17	1,914,455	31,303,106	69,572,305
Interfund Transfers	(3,329,888)	3,332,191	(2,478)	0	0	175	0
Disbursements	(1,561,821)	(4,633,131)	(29,310,570)	0	(1,914,455)	0	(37,419,977)
Ending Balance (2013)	\$79,960,977	\$27,383,071	\$3,473,215	\$17,272	\$0	\$148,746,995	\$259,581,530

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Annuity Savings Fund:</b>			
Members Deductions	\$6,506,344	\$6,428,329	\$5,929,681
Transfers from Other Systems	254,126	255,133	185,599
Member Make Up Payments and Re-deposits	152,929	63,799	68,982
Member Payments from Rollovers	241,206	87,364	66,774
Investment Income Credited to Member Accounts	81,712	80,438	162,411
Sub Total	<u>7,236,317</u>	<u>6,915,064</u>	<u>6,413,447</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	832,833	819,274	803,385
Sub Total	<u>832,833</u>	<u>819,274</u>	<u>803,385</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	201,372	246,003	308,075
Pension Fund Appropriation	966,915	1,448,483	503,897
Settlement of Workers' Compensation Claims	27,091,830	26,041,685	24,700,000
Recovery of 91A Overearnings	23,900	29,015	22,000
	1,560	0	0
Sub Total	<u>28,285,576</u>	<u>27,765,186</u>	<u>25,533,972</u>
<b>Military Service Fund:</b>			
Investment Income Credited to the Military Service Fund	17	17	34
Sub Total	<u>17</u>	<u>17</u>	<u>34</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	1,914,455	1,774,887	1,522,626
Sub Total	<u>1,914,455</u>	<u>1,774,887</u>	<u>1,522,626</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	151,817	0	233,206
Interest Not Refunded	580	0	0
Miscellaneous Income	899	2,262	2,635
Excess Investment Income (Loss)	31,149,810	24,526,894	(529,548)
Sub Total (Loss)	<u>31,303,106</u>	<u>24,529,156</u>	<u>(293,707)</u>
<b>Total Receipts, Net</b>	<u>\$69,572,305</u>	<u>\$61,803,584</u>	<u>\$33,979,758</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$278,290	\$269,381	\$303,792
Transfers to Other Systems	<u>1,283,531</u>	<u>20,107</u>	<u>341,433</u>
Sub Total	<u>1,561,821</u>	<u>289,488</u>	<u>645,225</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	4,541,978	4,302,289	4,098,944
Option B Refunds	<u>91,153</u>	<u>69,919</u>	<u>30,777</u>
Sub Total	<u>4,633,131</u>	<u>4,372,208</u>	<u>4,129,721</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	18,965,129	18,304,343	17,982,957
Survivorship Payments	1,879,855	1,849,431	1,728,789
Ordinary Disability Payments	249,329	263,086	279,326
Accidental Disability Payments	5,489,255	5,427,723	4,886,504
Accidental Death Payments	1,436,596	1,437,108	1,445,973
Section 101 Benefits	354,251	363,277	350,635
3 (8) (c) Reimbursements to Other Systems	719,511	184,101	255,183
State Reimbursable COLA's Paid	<u>216,645</u>	<u>193,415</u>	<u>187,903</u>
Sub Total	<u>29,310,570</u>	<u>28,022,483</u>	<u>27,117,271</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,000	14,403	13,317
Salaries	192,111	261,281	147,444
Legal Expenses	45,848	53,588	31,489
Medical Expenses	0	33	0
Travel Expenses	681	1,958	2,251
Administrative Expenses	51,747	17,720	23,721
Professional Services	0	3,000	0
Accounting Services	3,000	0	0
Education and Training	3,535	1,620	1,845
Management Fees	1,580,667	1,377,199	1,259,372
Service Contracts	1,555	23,800	23,555
Fiduciary Insurance	<u>20,311</u>	<u>20,285</u>	<u>19,632</u>
Sub Total	<u>1,914,455</u>	<u>1,774,887</u>	<u>1,522,626</u>
<b>Total Disbursements</b>	<u><b>\$37,419,977</b></u>	<u><b>\$34,459,066</b></u>	<u><b>\$33,414,843</b></u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
<b>Investment Income Received From:</b>			
Cash	\$2,153	\$1,472	\$2,445
Pooled or Mutual Funds	<u>7,024,095</u>	<u>6,752,069</u>	<u>6,142,506</u>
<b>Total Investment Income</b>	<u>7,026,248</u>	<u>6,753,542</u>	<u>6,144,952</u>
<b>Plus:</b>			
Realized Gains	10,931,766	5,642,254	5,730,141
Unrealized Gains	24,386,525	27,678,472	21,232,233
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>35,318,291</u>	<u>33,320,727</u>	<u>26,962,374</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(833,852)	(862,591)	(1,716,399)
Unrealized Loss	(7,531,859)	(12,010,167)	(29,432,017)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(8,365,711)</u>	<u>(12,872,759)</u>	<u>(31,148,417)</u>
<b>Net Investment Income</b>	<u>33,978,828</u>	<u>27,201,510</u>	<u>1,958,909</u>
<b>Income Required:</b>			
Annuity Savings Fund	81,712	80,438	162,411
Annuity Reserve Fund	832,833	819,274	803,385
Military Service Fund	17	17	34
Expense Fund	<u>1,914,455</u>	<u>1,774,887</u>	<u>1,522,626</u>
<b>Total Income Required</b>	<u>2,829,017</u>	<u>2,674,616</u>	<u>2,488,456</u>
Net Investment Income	<u>33,978,828</u>	<u>27,201,510</u>	<u>1,958,909</u>
Less: Total Income Required	<u>2,829,017</u>	<u>2,674,616</u>	<u>2,488,456</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$31,149,810</u>	<u>\$24,526,894</u>	<u>(\$529,548)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2013		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,599,944	0.6%
Pooled Alternative Investment Funds	4,549,785	1.8%
Pooled Real Estate Funds	14,128,661	5.5%
PRIT Cash Fund	1,750,233	0.7%
PRIT Core Fund	<u>235,818,380</u>	<u>91.5%</u>
<b>Grand Total</b>	<b><u>\$257,847,003</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2013, the rate of return for the investments of the Lynn Retirement System was 15.06%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Lynn Retirement System averaged 10.56%. For the twenty-nine-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lynn Retirement System was 8.14%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the twenty-nine-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Lynn Retirement System has more than ninety per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Lynn Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address: <http://www.mass.gov/perac/investsup/Lynnintsup.html>.



# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lynn Retirement System member unit employees deemed eligible by the retirement board, including the City of Lynn, Lynn Housing Authority, the Lynn Water and Sewer Commission and the Lynn Retirement Board with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$797.64 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair market value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.



## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Lynn Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### Membership

May 24, 1991

All employees must be considered a permanent employee of the City, the Housing Authority, the Water and Sewer Commission, or the Retirement Board to be eligible for membership. A permanent employee must have a regularly scheduled work week of twenty hours or more per week with a commensurate salary paid on regular pay roll, not a stipend or bill. All permanent employees must join the system.

Temporary or seasonal employees shall be ineligible to join the system; however, upon becoming permanent, the employee shall have the option of purchasing prior service, as allowed by the Board.

June 20, 1990

All new employees hired by the City, the Housing Authority and Water and Sewer Commission shall become members of the retirement system at the time of hire with no probationary period.

#### Creditable Service

May 24, 1991

Full time employees will receive one full year of credit for each year employed. Part time employees whose position has always been part time will be granted full creditable service. A part time employee who becomes full time will have part time service prorated as allowed by the Board. School Department: Full time employees working an entire school year (40 weeks) receive one full year of creditable service. Cafeteria workers, teacher aides, and other school employees who work less than 40 hours per week shall be given full service credit provided they work the normal number of hours of their particular job title as defined by the School Department.

Reserve Police or Call Fire Fighters: The Board shall credit as full time service not to exceed five years that period of time during which a reserve or permanent intermittent police officer or reserve permanent intermittent or call fire fighter was on his/her respective list and was eligible for assignment to duty subsequent to his/her appointment, further, that such service shall be credited only if later appointed as a permanent member of the police or fire department.

CETA: Employees who previously worked for the Lynn CETA program may purchase this service credit provided they are active members of the Retirement System.

#### Buy-Backs

August 24, 1994

The Retirement Board will not accept service credit liability of less than 13 consecutive weeks (minimum 20 hours per week) for former Lynn governmental employees who were ineligible at the time of their employment in the Lynn Retirement System. This regulation would not apply to an employee who has established membership in the Lynn Retirement System.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

June 20, 1990

Effective immediately the Retirement Board will not accept extra retirement deductions on the weekly payroll for the purpose of buying back creditable service. In order to buy back service credit, the employee must make payments either in a lump sum or periodically, directly to the retirement board office.

#### Travel Regulations

The Lynn Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations are available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Lynn>.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Stephen Spencer

Appointed Member: Claire A. Cavanagh                      Until a successor is appointed

Elected Member: Richard P. Biagiotti                      Term Expires: 06/30/2016

Elected Member: Gordon "Buzzy" Barton                      Term Expires: 06/30/2015

Appointed Member: Michael J. Marks, Esq.                      Term Expires: 01/01/2018  
Chairman

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Fidelity insurance is the only required policy coverage under Ch 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$50,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2013.

The actuarial liability for active members was	\$241,298,881
The actuarial liability for vested terminated members was	2,167,914
The actuarial liability for non-vested terminated members was	726,466
The actuarial liability for retired members and survivors was	<u>285,530,371</u>
The total actuarial liability was	\$529,723,632
System assets as of that date were	<u>222,054,705</u>
The unfunded actuarial liability was	<u>\$307,668,927</u>
The ratio of system's assets to total actuarial liability was	41.9%
As of that date the total covered employee payroll was	\$69,790,545

The normal cost for employees on that date was 8.7% of payroll

The normal cost for the employer was 5.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum  
 Rate of Salary Increase: Service based table with ultimate rates of 4.25%, 4.50% and 4.75% for groups 1, 2 and 4 respectively.

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2013	\$222,054,705	\$529,723,632	\$307,668,927	41.9%	\$69,790,545	440.8%
1/1/2011	\$219,471,746	\$477,095,691	\$257,623,945	46.0%	\$65,300,673	394.5%
1/1/2009	\$186,016,654	\$443,629,118	\$257,612,464	41.9%	\$69,357,106	371.4%
1/1/2007	\$198,161,361	\$412,239,249	\$214,077,888	48.1%	\$67,205,922	318.5%
1/1/2006	\$186,958,827	\$400,012,538	\$213,053,711	46.7%	\$65,444,873	325.5%

# NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Retirement in Past Years</b>										
Superannuation	27	25	25	21	34	44	25	36	35	29
Ordinary Disability	0	0	0	0	1	1	0	1	0	0
Accidental Disability	6	11	20	12	9	8	10	11	11	7
<b>Total Retirements</b>	33	36	45	33	44	53	35	48	46	36
Total Retirees, Beneficiaries and Survivors	1,295	1,277	1,247	1,249	1,298	1,213	1,214	1,198	1,252	1,248
Total Active Members	1,459	1,491	1,794	1,735	1,385	1,348	1,294	1,296	1,334	1,327
<b>Pension Payments</b>										
Superannuation	\$15,575,794	\$15,599,005	\$15,820,908	\$16,117,038	\$16,350,345	\$16,893,025	\$17,464,773	\$17,982,957	\$18,304,343	\$18,965,129
Survivor/Beneficiary Payments	1,478,614	1,495,522	1,528,114	1,559,431	1,609,741	1,652,885	1,682,506	1,728,789	1,849,431	1,879,855
Ordinary Disability	274,626	258,969	251,315	245,667	260,980	273,613	283,508	279,326	263,086	249,329
Accidental Disability	3,282,587	3,433,399	3,590,129	3,872,447	4,078,346	4,305,306	4,563,306	4,886,504	5,427,723	5,489,255
Other	2,043,328	2,408,165	2,731,571	2,485,763	2,693,754	2,463,294	2,489,597	2,239,694	2,177,901	2,727,003
<b>Total Payments for Year</b>	<u>\$22,654,949</u>	<u>\$23,195,060</u>	<u>\$23,922,037</u>	<u>\$24,280,346</u>	<u>\$24,993,166</u>	<u>\$25,588,123</u>	<u>\$26,483,689</u>	<u>\$27,117,271</u>	<u>\$28,022,483</u>	<u>\$29,310,570</u>



PERAC

Five Middlesex Avenue | Third Floor  
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)